

**REPORT OF THE AUDIT OF THE  
FORMER LETCHER COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 1999**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.kyauditor.net](http://www.kyauditor.net)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER LETCHER COUNTY SHERIFF**

**For The Year Ended  
December 31, 1999**

The Auditor of Public Accounts has completed the Former Letcher County Sheriff's audit for the year ended December 31, 1999. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

Excess fees increased by \$7,923 from the prior calendar year, resulting in excess fees of \$7,923 as of December 31, 1999. Revenues increased by \$45,591 from the prior year and disbursements decreased by \$14,215.

#### **Report Comments:**

- The Former Sheriff Should Have Presented His Annual Financial Statement To The Fiscal Court And Published As Required
- The Former Sheriff Should Have Requested The Fiscal Court Set Maximum Salary and Fringe Benefit Limitations For Deputies
- The Former Sheriff Should Have Invested Funds In An Interest-Bearing Account
- The Former Sheriff Should Have Reconciled Payroll Account And Maintained Timesheets
- The Former Sheriff Should Have Expended Public Funds Only For Necessary Expenses Of The Sheriff's Office
- The Former Sheriff Should Deposit Personal Funds To Eliminate A Cumulative Deficit
- The Former Sheriff Should Have Obtained A Written Agreement to Protect Deposits
- The Former Sheriff Should Pay Excess Fees Due To The Fiscal Court From Prior Years
- The Former Sheriff Should Pay Excess Fees Of \$7,923 Due The Fiscal Court For Calendar Year 1999
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts

#### **Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds. However, the former Sheriff did not obtain a written security agreement to protect deposits.



## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES.....	3
NOTES TO FINANCIAL STATEMENT .....	5
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS .....	7
COMMENTS AND RECOMMENDATIONS .....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	19





**CRIT LUALLEN**  
**Auditor of Public Accounts**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Carroll A. Smith, Letcher County Judge/Executive

Honorable Stephen Banks, Former Letcher County Sheriff

Honorable Danny Webb, Letcher County Sheriff

Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Letcher County, Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the year ended December 31, 1999, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Carroll A. Smith, Letcher County Judge/Executive  
Honorable Stephen Banks, Former Letcher County Sheriff  
Honorable Danny Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Have Presented His Annual Financial Statement To The Fiscal Court And Published As Required
- The Former Sheriff Should Have Requested The Fiscal Court Set Maximum Salary and Fringe Benefit Limitations For Deputies
- The Former Sheriff Should Have Invested Funds In An Interest-Bearing Account
- The Former Sheriff Should Have Reconciled Payroll Account And Maintained Timesheets
- The Former Sheriff Should Have Expended Public Funds Only For Necessary Expenses Of The Sheriff's Office
- The Former Sheriff Should Deposit Personal Funds To Eliminate A Cumulative Deficit
- The Former Sheriff Should Have Obtained A Written Agreement to Protect Deposits
- The Former Sheriff Should Pay Excess Fees Due To The Fiscal Court From Prior Years
- The Former Sheriff Should Pay Excess Fees Of \$7,923 Due The Fiscal Court For Calendar Year 1999
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 10, 2003



LETCHER COUNTY  
STEPHEN BANKS, FORMER COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 1999

Receipts

Federal Grants		\$	23,629
State Grants			30,939
State-KLEFPF			15,939
State Fees For Services:			
Finance and Administration Cabinet	\$	26,814	
Cabinet For Human Resources		<u>384</u>	27,198
Circuit Court Clerk:			
Sheriff Security Service	\$	5,022	
Fines and Fees Collected		<u>747</u>	5,769
Fiscal Court			14,305
County Clerk - Delinquent Taxes			9,319
Commission On Taxes Collected			183,284
Bank Share Commissions			5,282
Fees Collected For Services:			
Auto Inspections	\$	1,717	
Accident and Police Reports		1,441	
Serving Papers		<u>11,867</u>	15,025
Other:			
Prisoner Transport			7,963
Sheriff's Fee			38,848
Carrying Concealed Deadly Weapon Permits			6,720
Miscellaneous			10,943
Borrowed Money:			
Loan Receipts			<u>8,120</u>
Total Receipts		\$	<u>403,283</u>

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY  
STEPHEN BANKS, FORMER COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
For The Year Ended December 31, 1999  
(Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries \$ 151,987

KLEFPF Salaries 9,876

Employee Benefits-

Employer's Share Social Security 14,783

Contracted Services-

Prisoner Transport 1,940

Advertising 375

Vehicle Maintenance and Repairs 16,098

Radio Service 1,484

Materials and Supplies-

Office Materials and Supplies 5,814

Uniforms 467

Auto Expense-

Gasoline 22,250

Mileage 387

Other Charges-

Payments To IRS 14,246

Cell Phones for Cruisers 11,040

Audit Fee 2,625

Bank Service Charge 193

Conventions and Travel 140

Dues 25

Postage 593

Insurance 153

Bond 395

Carrying Concealed Deadly Weapon Permits 5,160

Miscellaneous 2,184

Debt Service:

Notes 74,120

Total Disbursements \$ 336,335

Less: Disallowed Disbursements - Penalties 2,866

Total Allowable Disbursements \$ 333,469

Net Receipts \$ 69,814

Less: Statutory Maximum 61,891

Excess Fees Due County for Calendar Year 1999 \$ 7,923

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 1999.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1999  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board of committee, and (c) an official record of the depository institution. The depository institution had pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the former Sheriff securing the former Sheriff's interest in the collateral.

Note 4. COPS Grant

The former Sheriff received \$23,629 from a COPS Grant during calendar year 1999. The grant was used to pay deputies salaries. The former Sheriff was in compliance with the terms of the grant agreement.

Note 5. Victim's Advocacy Grant

The former Sheriff received and expended a total of \$30,939 from a Victim's Advocacy grant. The grant was used for a victim's advocate salary.

LETCHER COUNTY  
STEPHEN BANKS, COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 1999

Assets

Cash in Bank 1999 Fee			
1999 Fee Account	\$	2,153	
Carrying Concealed Deadly Weapon Permits Account		1,240	
1999 Payroll Account		3,860	
1998 Fee Account		155	
1995 Fee Account		469	
1994 Fee Account		<u>1,257</u>	\$ 9,134
Deposits in Transit			
1999 Fee Account	\$	14,386	
Carrying Concealed Deadly Weapon Permits Account		<u>960</u>	<u>15,346</u>
Total Assets			<u>\$ 24,480</u>

Liabilities

Outstanding Checks			
1999 Fee Account	\$	279	
Carrying Concealed Deadly Weapon Permits Account		<u>640</u>	\$ 919
Paid Liabilities:			
1999 Fee Account			12,763
Unpaid Obligations:			
1991 Excess Fees	\$	4,963	
1994 Excess Fees		8,829	
1995 Excess Fees		5,644	
1999 Excess Fees		<u>7,923</u>	
Total Unpaid Obligations			<u>27,359</u>
Total Liabilities			<u>\$ 41,041</u>
Total Fund Deficit as of December 31, 1999			<u><u>\$ (16,561)</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

## COMMENTS AND RECOMMENDATIONS





LETCHER COUNTY  
STEPHEN BANKS, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 1999

STATE LAWS AND REGULATIONS:

1. The Former Sheriff Should Have Presented His Annual Financial Statement To The Fiscal Court And Published As Required

KRS 134.310 requires the Sheriff's annual settlement be presented to the county. Also, KRS 424.220 (6) requires the Sheriff, within sixty days after the close of the calendar year, to cause the financial statement to be published. We recommend the former Sheriff comply with these statutes.

*Former Sheriff's Response:*

*No response.*

2. The Former Sheriff Should Have Requested The Fiscal Court Set Maximum Salary And Fringe Benefit Limitations For Deputies

KRS 64.530 requires the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant. We recommend the Sheriff's office comply with this statute by submitting maximum salary and fringe benefit limitations to the fiscal court.

*Former Sheriff's Response:*

*Sheriff thought that this was done.*

3. The Former Sheriff Should Have Invested Funds In An Interest-Bearing Account

The former Sheriff did not maintain an interest-bearing bank account for monies received from fees and services of his office. KRS 66.480 states that county officials shall invest money under their control. We recommend the Sheriff's office invest all money in an interest-bearing account.

*Former Sheriff's Response:*

*Bank advised this would have caused more paperwork than interest would have justified.*

LETCHER COUNTY  
STEPHEN BANKS, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 1999  
(Continued)

4. The Former Sheriff Should Have Reconciled Payroll Account And Maintained Timesheets

During calendar year 1999, the payroll account was not reconciled. In addition, the former Sheriff did not maintain timesheets. According to KRS 337.320 every employer shall keep a record of a) the amount paid each pay period to each employee; b) the hours worked each day and each week by each employee; and c) such information as the secretary requires. We recommend the Sheriff's office comply with this statute as required.

*Former Sheriff's Response:*

*Started maintaining timesheets in calendar year 2000.*

5. The Former Sheriff Should Have Expended Public Funds Only For Necessary Expenses Of The Sheriff's Office

---

The former Sheriff made total payments of \$14,246 from his 1999 account to pay 1998 federal withholdings due to the Internal Revenue Service. Of this amount, \$2,866 of penalties and interest will be disallowed. In *Funk v. Milliken*, Ky., 317 S.W.2d 499 (1958), Kentucky's highest court reaffirmed the rule that county fee officials expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. Penalties and interest due to filing late are not considered necessary expenses of the Sheriff's office. We recommend the former Sheriff reimburse the 1999 fee account for these disallowed expenses. We recommend the Sheriff's office implement proper accounting procedures for documenting expenditures and determine if they are necessary, reasonable in amount, beneficial to the public, and not personal in nature.

*Former Sheriff's Response:*

*Lack of adequate funds until tax collection began.*

6. The Former Sheriff Should Deposit Personal Funds To Eliminate A Cumulative Deficit

The former Sheriff should deposit personal funds to eliminate a cumulative deficit of \$16,561. This deficit originated from disallowed IRS penalties of \$2,866 and unpaid prior year excess fees of \$19,436 due to the fiscal court, less cash on hand. We recommend the former Sheriff deposit personal funds to eliminate this deficit.

*Former Sheriff's Response:*

*No response.*

LETCHER COUNTY  
 STEPHEN BANKS, FORMER COUNTY SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 1999  
 (Continued)

7. The Former Sheriff Should Have Obtained A Written Agreement to Protect Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of November 12, 1999, the former Sheriff had bank deposits of \$108,784; FDIC insurance of \$100,000; and collateral pledged or provided of \$251,985. Even though the former Sheriff obtained sufficient collateral of \$251,985, there was no written agreement between the former Sheriff and the depository institution, signed by both parties, securing the former Sheriff's interest in the collateral. We recommend the Sheriff's office enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Former County Sheriff's Response:*

*No response.*

8. The Former Sheriff Should Pay Excess Fees Due To The Fiscal Court From Prior Years

The former Sheriff should pay excess fees due to the fiscal court from prior years. The former Sheriff owes \$4,963 from calendar year 1991; \$8,829 from calendar year 1994; and \$5,644 from calendar year 1995. KRS 134.310 requires the Sheriff to pay excess fees to the Fiscal Court within sixty days after the end of the year. We recommend the former Sheriff pay these amounts due to the Fiscal Court.

*Former Sheriff's Response:*

*Will be paid upon completion of audits.*

9. The Former Sheriff Should Pay Excess Fees Of \$7,923 Due The Fiscal Court For Calendar Year 1999

The former Sheriff should pay excess fees of \$7,923 due the fiscal court for calendar year 1999. Of this amount, \$3,497 is due from the 1999 fee account, \$1,560 is due from the Carrying Concealed Deadly Weapons Permits Account, and the remainder will come from personal funds which should be deposited as a result of the disallowed expenditure of \$2,866 in IRS penalties. We recommend the former Sheriff pay the fiscal court the excess fees due for the calendar year 1999.

*Former Sheriff's Response:*

*Lack of adequate funds until tax collection began.*

LETCHER COUNTY  
STEPHEN BANKS, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 1999  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

1. The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official had limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented by the Sheriff's office to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Former Sheriff's Response:*

*Budget limited number of office staff.*

2. The Former Sheriff Should Have Complied With The Uniform System Of Accounts

The former Sheriff did not follow proper accounting procedures or maintain proper records in that the following were not prepared:

- The disbursements ledger was incomplete in that it did not list any payee or account titles.
- The Payroll bank account was not reconciled monthly.
- The Concealed Deadly Weapons bank account was not reconciled monthly.
- The Annual financial statement was not prepared, approved, or published.

We recommend the Sheriff's office comply with the Uniform System of Accounts by maintaining the proper disbursements ledger, reconciling his payroll account and Concealed Deadly Weapons account monthly and by preparing an annual financial statement, presenting the annual financial statement to the fiscal court for approval, and by publishing the annual financial statement.

*Former Sheriff's Response:*

*No response.*

LETCHER COUNTY  
STEPHEN BANKS, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 1999  
(Continued)

PRIOR YEAR:

- The Former Sheriff Should Have Presented His Annual Financial Statement To The Fiscal Court And Published As Required
- The Fiscal Court Should Set Maximum Salary and Fringe Benefit Limitations For Deputies
- The Former Sheriff Should Have Invested Funds In An Interest-Bearing Account
- The Former Sheriff Should Reconcile Payroll Account And Maintain Timesheets
- The Former Sheriff Should Expend Public Funds Only For Necessary Expenses Of The Sheriff's Office
- The Former Sheriff Should Have A Written Agreement to Protect Deposits
- The Former Sheriff Should Pay Excess Fees Due To The Fiscal Court From Prior Years
- Lacks Adequate Segregation Of Duties
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**Auditor of Public Accounts**

The Honorable Stephen Banks, Former Letcher County Sheriff  
The Honorable Danny Webb, Letcher County Sheriff  
The Honorable Carroll A. Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the former Letcher County Sheriff for the year ended December 31, 1999, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Letcher County Sheriff's financial statement for the year ended December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Governmental Auditing Standards which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Presented His Annual Financial Statement To The Fiscal Court And Published As Required
- The Former Sheriff Should Have Requested The Fiscal Court Set Maximum Salary and Fringe Benefit Limitations For Deputies
- The Former Sheriff Should Have Invested Funds In An Interest-Bearing Account
- The Former Sheriff Should Have Reconciled Payroll Account And Maintained Timesheets
- The Former Sheriff Should Have Expended Public Funds Only For Necessary Expenses Of The Sheriff's Office
- The Former Sheriff Should Deposit Personal Funds To Eliminate A Cumulative Deficit
- The Former Sheriff Should Have Obtained A Written Agreement to Protect Deposits
- The Former Sheriff Should Pay Excess Fees Due To The Fiscal Court From Prior Years
- The Former Sheriff Should Pay Excess Fees Of \$7,923 Due The Fiscal Court For Calendar Year 1999

105 SEA HERO ROAD, SUITE 2 FRANKFORT, KENTUCKY 40601-5404  
PHONE 502.573.0050 FACSIMILE 502.573.0067

AN EQUAL OPPORTUNITY EMPLOYER M/F/D



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Letcher County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Complied With The Uniform System Of Accounts

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 10, 2003

